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SUBJECT: PHILANTHROPY GROWS IDIOSYNCRATICALLY IN RUSSIA

¶1. (SBU) Summary. GOR efforts to exert greater control over Russia's NGO sector and a lack of tax incentives have not reversed a dramatic growth in philanthropy, particularly by large domestic corporations. Philanthropic activity has generally matched the expansion of the Russian economy (about six percent annually), but it differs in character from western philanthropy. Individual giving is modest, and Russians rarely donate to high-profile international causes, like the Asian tsunami. NGOs play a small role in providing charitable services, and Russian officials frequently pressure corporate and private donors to support public projects and state institutions. A new law on endowments has been passed to encourage big businesses to give more to charities and social projects. End summary.

Renaissance of Philanthropy: Corporate, Not Individual

¶2. (U) According to research done by the Charities Aid Foundation, philanthropic activity is growing in Russia at the pace of the economy: about six percent annually. Corporate donors provide about 75 percent of donations (compared to 25 percent in the U.S.), the donations of the 30 largest amount to USD 1.5 billion per year, and the figure is growing. Aleksandr Livshin, professor at Moscow State University's School of Public Administration, said more than 60 percent of company owners reported in a recent study that they had increased their philanthropic activity since 2000. While Russian politicians and publicists often imply that western governments and NGOs seek to use donations in order to influence political developments in Russia, foreign private NGOs and donors actually constitute only 8.4 percent of total Russian contributions. According to the Center of Economic and Financial Research (CEFR), companies spend about 11-17 percent of their net profits on social needs (which include not only charity but non-wage employee benefits, including subsidies for housing, day care, recreation, and medical services), while for Western companies the equivalent expenditure is roughly 0.5-1 per cent. According to CEFR, these social benefits typically represent in-kind compensation for the poor quality of the local social infrastructure. Over 50 percent of major corporations have a special social budget.

¶3. (SBU) Individual philanthropy remains less developed. According to Galina Bodrenkova, President of the Russian Center for Developing Volunteerism, only 5-15 percent of Russians donate to charity. Fifty-five percent know nothing about philanthropic organizations in Russia, and more than half of Muscovites have never practiced volunteerism. Yelena Abrosimova, a program co-director at IREX, stated that individual giving and the concept of membership-based NGOs (e.g., World Wildlife Fund) is not popular, because Russians do not have faith in NGOs to use their donations appropriately. She said Russians are more likely to give money to homeless people or beggars on the metro, because they know precisely where there money is going.

¶4. (SBU) Also contributing to Russians' reluctance, according to

Livshin, are current regulations, which make it difficult for an individual citizen to offer a charitable donation. A potential benefactor must go to a branch of Sberbank and complete a complex form for even a modest donation. In addition, he said, the Khodorkovskiy case caused would-be wealthy philanthropists to avoid politically controversial activities. Some worry as well that flaunting their earnings through charity may attract the attention of criminal elements. However, he said the main reasons why private citizens engage in so little philanthropy is that the middle class is just emerging and the habit of individual charity practically disappeared under Communism.

Distinctive Features of Russian Philanthropy

¶5. According to Livshin, Russian philanthropy has many distinctive features. First, almost all donations stay in Russia. Russian philanthropists are overwhelmingly concerned with solving domestic problems. Not even a catastrophe on the scale of the December 2004 tsunami in Southeast Asia stimulated substantial private Russian

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contributions to international relief operations. Second, very few philanthropists use NGOs to deliver aid to fellow citizens. Most Russian donors see NGOs as inefficient if not thievish. In their turn, most NGO leaders have a poor opinion of rich business leaders.

In Russia, the volume of the Russian non-profit sector makes up only 1.2 percent of the country's GDP, in contrast to 6.7 percent for the U.S. Finally, almost 90 percent of donations in Russia go to state-run bodies such as local orphanages and cultural institutions.

This results partly from official encouragement, partly from philanthropists' general distrust of NGOs, and partly from the tax code provision that permits some deductions for direct donations to state institutions.

Philanthropy Growing: No Tax Incentives, but Tithing

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¶6. (SBU) The growth in philanthropy has surprised many experts, given that extensive reforms in 2000-2001 removed from the Tax Code virtually all incentives for charitable giving. Private citizens making charitable donations are eligible for tax deductions equal to their contribution only if it goes to scientific, cultural, athletic, or educational organizations wholly or partly financed by the state. In other words, Livshin said, the incentives encourage individual donors to support state initiatives. The situation for corporate charity is similar.

¶7. (SBU) According to Bodrenkova, tax incentives for charitable foundations were widely abused in the 1990s, leading to instances of money laundering. Along with depriving the federal government of tax funds, these abuses had the effect of sapping public confidence in philanthropy. Government officials often suspect that philanthropic donations seek to conceal shady business practices or other illicit activities. Although these abuses are less frequent today, Bodrenkova said the image of fraudulent charitable behavior persists.

¶8. (SBU) According to Natalya Kaminarskaya, Executive Secretary of the Russia Donors Forum, some Russians view corporate philanthropy as a form of compensation for unfair privatization of the 1990s. Now that business is thriving, society expects repayment. Companies understand that philanthropy can help them create a positive image in communities. They have started to become more strategic in their activities - to consider not just current crises but sustainable and long-term philanthropic development. Companies have begun to develop complex and sophisticated corporate social responsibility programs, Kaminarskaya said, often using the services of professional development organizations such as Russia's Charity Aid Foundation as they lack the expertise to design effective programs themselves.

¶9. (SBU) Kaminarskaya added that supporting education initiatives is a very high priority for businesses. Approximately USD 70 million

in grants and scholarships was donated by Russian private foundations in 2005. Corporations have had increasing trouble finding professional, well-educated employees, and since Russians tend not to move in search of jobs, local education is key. Only around 2 percent of the Russian population changed their residence within the borders of Russia per year during the 1990s, and the figure decreased to 1.4 percent in 2002, which is quite low compared to the U.S. internal migration rate of 13.7 percent in March 2002–March 2003. Consequently, many companies support youth programs, including scholarships, professional training, and internships. For example, she said, the company Norilskiy Nikel has a "Professional Start" program, which includes internship competitions for students. The most successful interns often receive job offers. Russian private and family foundations also focus on education. For example, the Dynasty Foundation, founded by the oligarch Dmitry Zimin, supports natural sciences, education, and scientific research, while the Vladimir Potanin Foundation runs university scholarship programs.

Philanthropy as Tool to Grease the Wheel with Government

¶10. (SBU) Kaminarskaya said that her experience indicates that international and Russian donors tend to establish different philanthropic priorities, with Russian donors frequently using philanthropy as tool to grease the wheel with the government. International foundations concentrate on civil society initiatives and institutions, development and sustainability, human rights, global environmental protection programs, HIV/AIDS, and economic development. In contrast, Russian donors focus on social initiatives, youth and children programs, youth professional and occupational training, culture, sports, education, gifted children and special needs children, and assistance for the disabled. Abrosimova estimated that as much as 80 percent of donations are more or less bribes to the government. The government frequently says "build a school here" or "support this museum," and big business will agree because it fears retaliation. Abrosimova said that Russian officials frequently pressure major philanthropists to support the government's National Priority Projects in healthcare, education, housing, and agriculture. Representatives of the media and other social sectors, including the NGO community, also see much philanthropy as motivated by a desire to curry favor with elites; or worse, as a covert form of bribery.

¶11. (SBU) In addition, Kaminarskaya said philanthropy often emphasizes culture. For example, Alfa Bank funds large concert tours for the St. Petersburg-based Mariinsky Theater and the Russian Ballet, as well as concerts and performances in different regions. Similarly, the Vladimir Potanin foundation supports museum development in the Russian regions, and Viktor Vekselberg (head of SUAL and Tyumen Oil Company) purchased the Forbes' Faberge egg

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collection in order to repatriate it to Russia. As in the West, such high-profile philanthropy burnishes the reputation of the donor and buttresses the image of Russia as a resurgent state.

Philanthropy Plays a Large Role in Regional Development

¶12. (SBU) Livshin believed that philanthropy plays a large role in the development of some of the regions. Businesses such as SUAL, RUSAL, TNK-BP, and others manage their own programs, taking responsibility for funding municipal social institutions, including hospitals and schools. In some cases, they virtually supplant the local authorities. In most cases, social institutions have no other source of funding. Livshin estimated that more than 80 percent of corporate funds are distributed in the regions, with 60-90 percent of those provided to state institutions. Donors can more rapidly address urgent social needs than public institutions, with their extensive legal requirements and bureaucratic processes.

¶13. (SBU) Livshin said surveys indicate three-fourths of Russian philanthropists report experiencing pressure from regional and municipal authorities to donate to public projects. Ironically, half of this group looks favorably on such overtures, because they see the solicitations as strengthening their ties with the local

bureaucracy. In addition, over 70 percent said they would donate to state institutions anyway, although often they would choose different recipients. Officials often pressure them to pay to sustain decaying public infrastructure, whereas the philanthropists would prefer to address urgent social needs. Although respondents believe that maintaining the infrastructure should be the government's responsibility, they acknowledge that official incompetence and corruption often interfere.

New Law on Endowments Will Help Corporate Philanthropy

¶14. (SBU) Putin recently signed a new law to encourage big businesses to give more to charities and social projects. The law, which will allow the creation of charitable endowments with special tax privileges, was hailed as a milestone by interlocutors. The move comes amid pressure for the Kremlin to spend some of its USD 70 billion petro-dollar fund on social projects.

¶15. (SBU) According to Bodrenkova, under the new law, those charitable funds that meet the definition of an endowment will not be taxed and will not have to pay VAT when they disburse their funds. Human rights organizations and youth groups do not qualify for tax breaks, however, as the law will apply only to organizations involved in education, science, healthcare, culture, and social services - in other words, Bodrenkova said, areas where the government usually provides services. The new law stipulates that the endowments must be at least 3.5 million rubles (USD 130,000) in size and that they be invested into the market by professional fund managers.

¶16. (SBU) Bodrenkova said it is not clear if the government will stop with the new endowment law. There has also been discussion of a new "philanthropic tax" on big business, which would, in effect, make charitable donations mandatory. According to Livshin, "philanthropic taxing" has been used on occasion on the local level in Moscow and the regions.

Comment

¶17. (SBU) Some critics argue that government officials have succeeded in concentrating philanthropy among a small number of large corporate benefactors in order to exercise greater control over their activities. Making philanthropy more independent of the state and less dependent on corporate generosity could spur the development of a more robust independent civil society in Russia. However, increasing public involvement will take time. It will require not just new legislation but socio-cultural changes, which would lead to the emergence of a new culture of individual philanthropic behavior, although much has already been accomplished.

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